



City of San Diego

KEVIN FAULCONER
CITY COUNCILMEMBER-DISTRICT 2

CARL DEMAIO
CITY COUNCILMEMBER-ELECT -DISTRICT 5

MEMORANDUM

DATE: August 27, 2008

TO: Mayor Jerry Sanders
City Councilmembers

FROM: Councilmember Kevin Faulconer *Kevin Faulconer*
Councilmember-Elect Carl DeMaio *Carl DeMaio*

SUBJECT: Mid-Year Spending Reduction Package to Ensure Balanced Budget

We write with serious concerns about the City's ability to maintain a balanced budget for FY 2009. Traditionally a mid-year adjustment is made in January or February of the fiscal year—however we believe immediate action is likely warranted during next month's quarterly budget update.

We suggest that the Mayor's office formulate a Spending Reduction Plan for the City Council to prepare to act upon.

In June, the City Council approved a budget over the Mayor's veto that increased City spending by \$4.3 million for FY 2009. Developments since that time only serve to underscore the basis of the Mayor's veto.

News reports and economic data suggest a slowdown in the national and local economy—raising concerns that the City might not even meet the already conservative revenue estimates contained in the FY 2009 budget. Specifically, we are concerned about the potential for shortfalls in sales tax, Transient Occupancy Tax, and property tax.

More significantly, as the State budget stalemate has progressed into its ninth week, some state legislative leaders are proposing to divert local government funds. Should the State exercise its option under Prop 1A, the City stands to lose up to \$35 million in funding in FY 2009.

At the same time, the City's reserves have already been tapped to fund mid-year expenses from FY 2008. Any additional unbudgeted mid-year expenses in FY 2009 would further draw down City reserves. To prevent this, we believe the City should implement a "Pay-As-You-Go" funding approach for any unbudgeted mid-year expenses for City Council offices, all City departments, and litigation initiated by the City Attorney.

In September, the Budget Committee will hear the quarterly financial report from the Chief Financial Officer that will provide a clearer sense of how extensive the revenue shortfall in FY 2009 may be. Should expected revenues fall short of the assumptions contained in the FY 2009 budget, it is essential that the Mayor and the City Council take immediate action to curtail expenditures by a commensurate amount to maintain a balanced budget. Any delay in spending reductions will only make it more difficult to achieve a balanced budget later in the fiscal year.

It is our hope that the Mayor and City Council will share in our commitment to make the necessary early spending reductions to ensure a balanced budget for this fiscal year.

CC: City Attorney Michael Aguirre
Independent Budget Analyst